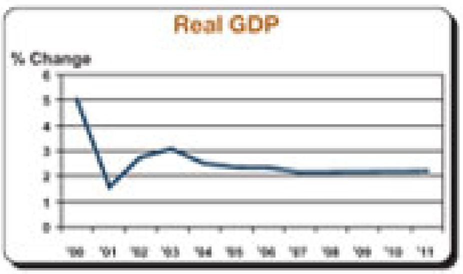
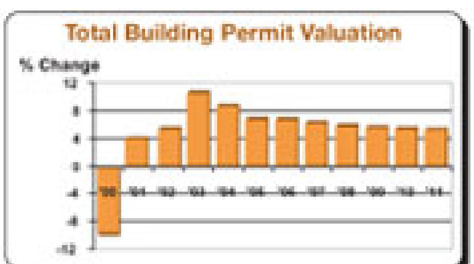
Chapman University's Center for Economic Research has developed a multi-year forecast which serves as a foundation for the 2002 Strategic Financial Plan. The forecast identifies four main engines of growth that drive the Orange County economy. These four engines of economic growth are *Gross Domestic Product (GDP), Construction, Defense Spending and International Trade.* According to this forecast, all four main engines of economic growth in the County appear to be slowing.

The most important of these engines is growth in real GDP that is adjusted for inflation. After registering almost no growth in the second quarter of 2001, the economy is projected to narrowly skirt a recession with recovery in quarterly real GDP growth in 2002 in the one to three percent range. Construction activity is projected to remain flat for 2001 which is unusual for a period of economic slowdown. Typically, construction drops sharply during economic downturns. The fact that residential and non-residential development is holding up well is a major reason that Orange County is not in a recession. Defense spending by the Federal Government is expected to rise significantly. This should have a positive impact on Orange County since it has many defense subcontractors that collectively generate high paying jobs. International trade is forecast to decline in the short term. However, in the long term, it is expected to double in growth in 2003. Mexico is Orange County's largest trading partner with annual exports of almost $2.5 billion due mainly to the North America Free Trade Agreement (NAFTA). Orange County exports to Pacific Rim countries have declined because of their weakened economies.



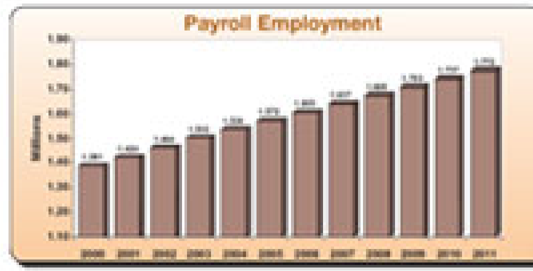


Although GDP, construction, spending on defense goods and international trade are the engines of growth, the Orange County economy is most influenced by the performance of the national economy. The steep drop in the national economy could lead to slower job growth, higher unemployment and a decline in the County's GDP as a result of the depressed tourism industry.

"Orange County, economically the strongest county in Southern California, will add only about 15,700 jobs in 2002, a 1.1% increase."

The County's ability to create well-paying jobs is an indicator of its economic health and can be measured in terms of payroll employment. According to the California Employment Development Department, Orange County generated over 45,450 new jobs in 2000. Annual job growth of 2% is expected to exceed population growth of 1% per year over the next ten years.

According to Chapman University's Center for Economic Research, Orange County, economically the strongest in Southern California, will add only about 15,700 jobs in 2002, a 1.1% increase. Every major employment category experienced an increase in job growth even the manufacturing sector. However, with a reduction in new orders for information technology products, Orange County is expected to experience a downturn in the manufacturing and technology sectors.



Orange County has consistently experienced lower annual unemployment rates compared to the State of California as depicted in the chart on the right. For the month of October 2001, Orange County's unemployment rate was 3.4% compared to 5.4% for California.

Employment growth directly affects taxable sales. Taxable sales are expected to increase from $46.8 billion in 2001 to $49.5 billion in 2002 reflecting a 5.8% increase.